

Senate Bill No. 593

Passed the Senate August 28, 2014

Secretary of the Senate

Passed the Assembly August 26, 2014

Chief Clerk of the Assembly

This bill was received by the Governor this _____ day
of _____, 2014, at _____ o'clock ____M.

Private Secretary of the Governor

CHAPTER _____

An act to add and repeal Title 15.5 (commencing with Section 97000) of the Government Code, relating to social impact partnerships.

LEGISLATIVE COUNSEL'S DIGEST

SB 593, Lieu. Social impact partnerships: pilot program.

Existing law establishes the Office of Planning and Research in the Governor's office and sets forth its powers and duties as the comprehensive state planning agency, including, among other things, to evaluate plans and programs of departments and agencies of state government.

This bill would state findings and declarations of the Legislature regarding the social problems currently facing the state and the function of social innovation financing, pay-for-success contracts, and social impact partnerships. The bill would authorize the Governor, or his or her designee, to solicit proposals for social impact partnerships using pay-for-success contracting and to enter into social impact partnerships, as defined, to address policies or programs not currently funded by the state, to address a particular component of a state program in order to improve outcomes or lower state costs, to reduce recidivism, to reduce child abuse and neglect, or to assist at-risk and foster children, provided that the social impact partnership does not cause the displacement of any state employee and the contractual agreement contains specified provisions. The bill would require a pay-for-success contract for a social impact partnership to be submitted to the Legislature as part of the Governor's proposed budget, and any funding necessary for that fiscal year to be included in the Governor's proposed budget for the state agency that would administer or oversee the contract. The bill would require the Treasurer to separately account for moneys approved by the Legislature and the Governor to use for payment for these contracts, upon appropriation by the Legislature.

This bill would repeal these provisions on January 1, 2020.

The people of the State of California do enact as follows:

SECTION 1. The Legislature finds and declares all of the following:

(a) Over six million people are currently living in poverty in California, and 22 percent are children. One in five children in California lives in poverty and nearly one-half of children in California either live in poverty or perilously close to it.

(b) The recidivism rates in California are among the highest in the nation. According to a 2012 report by the Department of Corrections and Rehabilitation, just over 65 percent of those released from California's prison system return within three years.

(c) Approximately 55,000 children are in the foster care system in California, yet, according to the Pew Charitable Trusts, by 19 years of age only 57 percent of emancipated foster youth have received high school diplomas or general education development (GED). Over 70 percent of all state prison inmates have spent time in the foster care system.

(d) Despite current efforts to address these challenges, there are simply not sufficient resources available through traditional funding mechanisms. Innovative approaches that can be shown to achieve defined goals should be pursued.

(e) Research and experience at the federal level and in other states show that the public can benefit from the use of social innovation financing to establish partnerships between governmental agencies, private investors, and service providers using pay-for-success contracts to achieve measurable social benefits.

(f) Social innovation financing and the use of pay-for-success contracting can be an especially effective tool for addressing social and community development challenges where private sector innovations are needed and multiple approaches are appropriate.

(g) This act will authorize the state to contract with nongovernmental organizations to provide a service to a targeted population over a specified period of time. If the results of the services provided meet predetermined program goals, the state will repay the nongovernmental organization for the services rendered plus an agreed upon rate of return. If the social program does not meet the targets, the government pays nothing.

(h) This act will authorize the state to enter into pay-for-success contracts to meet state goals to reduce recidivism and improve outcomes in the child welfare system. These contracts are in addition to any contract entered into in connection with the Social Innovation Financing Program authorized by Title 15.8 (commencing with Section 97008) of the Government Code.

(i) The social impact partnership model was first used in the United Kingdom in 2010 and has since been adopted in New York. Twelve other states are developing social impact partnerships, including Illinois, Michigan, New Jersey, Ohio, and Washington.

(j) In a time of limited public funds and a decrease in philanthropy, the social impact partnership model is being used across the nation to address social problems, to reduce recidivism, to reduce chronic homelessness, and to fund early childhood intervention and prevention services and job training programs.

SEC. 2. Title 15.5 (commencing with Section 97000) is added to the Government Code, to read:

TITLE 15.5. SOCIAL IMPACT PARTNERSHIPS PILOT PROGRAM

CHAPTER 1. GENERAL

97000. This title shall be known, and may be cited, as the Social Impact Partnerships Pilot Program.

97000.5. (a) For purposes of this title, the following definitions shall apply:

(1) “Pay-for-success contract” means a type of contract that the state may enter into with a service provider that sets performance and quality standards that must be met in order for the service provider to be paid. Pay-for-success contracts are often used to address a defined demographic group’s particular needs for which payment will be made after predetermined measurable results have been achieved.

(2) “Social impact partnership” means a contractual relationship between a public entity and one or more private entities for the purpose of addressing a social, economic, or educational challenge. The context, authorities, and responsibilities of a social impact partnership are laid out in a pay-for-success contract.

(3) “Social innovation financing” means an investment arrangement using private funding to finance a social program administered by a nonprofit organization or a for-profit service provider on behalf of a government agency pursuant to a pay-for-success contract, social innovation bond, or other model that results in the state paying for performance.

(b) Pay-for-success contracts, excluding those contracts entered into pursuant to Title 15.8 (commencing with Section 97008), may be entered into, subject to the conditions and requirements of this title, for any of the following:

(1) To address policies or programs that may be appropriate to meet a defined demographic group’s particular need, but that are not currently funded by the state.

(2) To address a particular component of a state program in order to improve outcomes or lower state costs.

(3) To improve outcomes in a program designed to reduce recidivism in the population of formerly incarcerated individuals.

(4) To reduce the incidence of child abuse and neglect through prevention and treatment, to improve the stability of at-risk and foster children through behavioral health and other trauma-informed care.

(c) A social impact partnership entered into pursuant to this title shall not be used in lieu of funding or administering an existing state program nor cause the displacement of any state employee.

(d) The Governor, or his or her designee, may solicit proposals for social impact partnerships using pay-for-success contracting pursuant to Section 97001. At a minimum, each application for a contract shall include all of the following:

(1) A description of the proposed social program.

(2) A description of the organization’s experience in providing the proposed social program.

(3) A description of the financial stability of the organization.

(4) An identification of each component of the social program to be provided.

(5) A description of the manner in which the social program will be provided.

(6) A description of the recruitment or selection process, or both, for participants in the social program.

(7) The proposed quantifiable results upon which the success of the program will be measured.

(8) An itemization of all expenses proposed to be reimbursed under the contract.

(9) A description of how the final payments for successful programmatic outcomes are structured in the contract.

(10) A description of all parties to the proposed contract, including prospective investors and philanthropic foundations.

(e) The Governor, or his or her designee, is authorized to enter into social impact partnerships, subject to the conditions and requirements of this chapter, for the purposes set forth in subdivision (b) if the pay-for-success contract contains all of the following:

(1) A requirement that payments for services be conditioned upon the achievement of specific outcomes based on defined baseline metrics, performance measures, and quality standards.

(2) A requirement that an independent evaluator be used to determine whether the performance outcomes and quality standards have been achieved.

(3) Specifications for how success will be measured and payments for services are earned.

(4) A calculation for the amount of, and the timing of, payments that will be earned by the service provider during each year of the agreement, if performance outcomes are achieved as determined by the independent evaluator.

(5) If applicable, pursuant to paragraph (2) of subdivision (b), a statement that the contract will result in significant performance improvements or budgetary savings if the performance outcomes are achieved.

(6) Safeguards to protect the well-being of the population being served including, but not limited to, privacy, health, and safety.

(f) Before finalizing the terms and conditions of the pay-for-success contract, the state agency that is assigned to administer or oversee the pay-for-success contract authorized by this title shall undertake an assessment to determine appropriate baseline metrics, performance standards, and quality measures to be included in the pay-for-success contract. At the conclusion of the pay-for-success contract, the state agency shall provide the Joint Legislative Budget Committee, the Senate Committee on Business, Professions and Economic Development, and the Assembly Committee on Jobs, Economic Development, and the Economy, with an assessment of how effective the social impact

partnership model was in meeting the particular needs of the targeted demographic group and make recommendations on how the structure or process of undertaking a social impact partnership through pay-for-success contracts may be improved.

97001. (a) A pay-for-success contract for a social impact partnership shall be submitted to the Legislature as part of the Governor's proposed budget, including any statutory changes that may be necessary for the pay-for-success contract to move forward. Any funding of the contract for that fiscal year shall be included in the Governor's proposed budget for the state agency that would administer or oversee the contract. A pay-for-success contract shall not be entered into without funding approval by the Legislature. This subdivision shall not apply to any contract entered into pursuant to Title 15.8 (commencing with Section 97008).

(b) The Treasurer shall separately account for moneys within the State Treasury for pay-for-success contracts that have been approved by the Legislature and the Governor, and hold those moneys, until the outcome of the social impact partnership has been evaluated, pursuant to subdivision (g) of Section 97000.5, and the moneys appropriated by the Legislature for payment of the pay-for-success contract.

97002. (a) This title shall not apply to any contract entered into pursuant to Title 15.8 (commencing with Section 97008).

(b) This title does not create a statutory entitlement to services or any contractual obligation on the part of the state.

97003. This title shall be repealed on January 1, 2020.

Approved _____, 2014

Governor